

# Small Enterprise Challenges and Responses to the COVID-19 Crisis: A Multi-Case Study in Bangladesh

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## ABSTRACT

**Purpose:** This study proposes a framework combining crisis challenges and response actions for crisis survival of small enterprises during the COVID-19 pandemic in Bangladesh.

**Design/methodology/approach:** We adopted a qualitative research design using a multiple case study method collecting data from four small firms in Bangladesh.

**Findings:** The findings of this study are expected to contribute to the literature on the small enterprise and COVID-19 context, providing useful insight into crisis survival for small firms, especially in developing countries.

**Research limitations/implications:** To counter these challenges, firms adopted short-term and long-term response strategies that resulted in survival for these businesses.

**Practical implications:** We derive a conceptual framework for crisis survival based on the learnings from the cases that would enable small firms to build resilience to crisis episodes. Additionally, we suggest recommendations that small enterprise owners and policymakers can adopt to improve the resilience during exogenous crisis periods.

**Originality/value:** This paper is original

**Paper type:** Research paper

**Keyword:** Challenges, COVID-19, Crisis Survival, Pandemic, Small Enterprise.

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## I. INTRODUCTION

Small enterprises (SEs) are facing an unprecedented time in the wake of the COVID-19 pandemic. As the SARS-COV-2 virus spread through the globe, and governments enforced lockdowns on all human activity, small enterprises started experiencing revenue and profit losses (Sansa, 2020). These businesses are more vulnerable to external crisis such as the coronavirus pandemic compared to their larger counterparts due to fewer resources to respond to a changing context (ITC, 2020; United Nations, 2020).

The COVID-19 induced crisis is more evident in Bangladesh, where we conducted our study. In Bangladesh, small enterprises are playing a critical role in accelerating industrialization and economic growth and are the primary driver for employment generation and poverty alleviation (International, 2020; United Nations, 2020). These businesses generally employ a larger portion of the workforce's vulnerable sectors, such as women, youth, and people from humbler households - populations with high vulnerability in times of COVID-19 (United Nations, 2020). These businesses are spread over in the country's urban and rural areas and are involved in the agricultural, manufacturing, service, retail, trade, and wholesale sectors. The crisis

impacted small businesses in the country so hard that a significant number are at the risk of a shutdown of business operations (International, 2020). Market demand for products and services has collapsed, accessing inputs have become difficult and employees have left the cities to go back to villages. Others are losing the ability to pay rent, utility bills, and salaries. Moreover, the lack of connectivity and digital skills is making the shift to online operations challenging.

The World Bank projected that the (The World Bank Group, 2019) real GDP growth in Bangladesh dropped to an estimated 2.0 percent during FY 2019-2020 due to the economic disruption caused by the pandemic. Although economic indicators showed a contraction in the second quarter of 2020, a subsequent rebound is estimated for Bangladesh in FY 2021 compared to its South Asian counterparts. Regardless of the many challenges, it is apparent that businesses in Bangladesh have shown tremendous resilience to the pandemic, as evidenced by the projected GDP growth rate. Therefore, this justifies the rationale for undertaking research to understand the challenges and crisis responses small enterprises in Bangladesh have adopted to create resilience during the COVID-19 crisis. Additionally, the majority of existing literature on COVID-19 and SMEs has not concentrated on the specific challenges of the enterprises posed by the crisis. Instead, studies have focused on the impact caused by the pandemic on SMEs (Aderemi et al., 2020; Aftab et al. 2021; Brühlhart et al., 2020; Cepel et al. 2020; Eusebius et al. 2020; Gheorghiu, 2020; Juergensen et al. 2020; Lalon, 2020; Lu et al. 2020; Lutfi et al., 2020; Shafi et al., 2020; Thorgren & Williams, 2020; Widarti et al., 2020). The particular challenges posed by the COVID-19 pandemic specific to small enterprises remain unexplored since studies in this area are yet to emerge. The rationale for a focus on SE was based on addressing the omission of SE in COVID-19 research. Thus, our research can contribute to the existing literature by exploring the challenges to small enterprises. Additionally, our research focuses on the strategies to mitigate the crisis and proposes a conceptual framework for crisis survival; thus, it can be useful as a policy guide for managers and decision makers in the small enterprises sector. Furthermore, our study is based on a developing economy; therefore, it contributes to improving the current state of understanding of the challenges confronted by small enterprises in developing economies.

To fill the research gaps, our study aims to shed light on the state of the small enterprises in the context of the COVID-19 crisis in Bangladesh, focusing on two research questions. First, *what are the forms of adversities that the small enterprises had to confront resulting from the pandemic induced lockdown (RQ1)?* Second, *what coping mechanisms are employed to respond to the challenges to these businesses (RQ2)?* Our paper provides the answer to the questions using qualitative multi-case study research (Neuman, 2015) of four small enterprises in the manufacturing and service sector in Bangladesh. This paper contributes to the emerging economy by investigating the challenges and the short- and long-term crisis survival mechanisms adopted by small enterprises in Bangladesh. The findings revealed in this study offer a roadmap for the response strategies for managers, owners of small enterprises, and policymakers in emerging economies/developing countries.

## II. LITERATURE REVIEW

### A. Prior research on small enterprises in a crisis scenario

Environmental and economic crises threaten small business continuity and cause supply chain disruption, property damage, inventory loss that result in significant harm for small businesses (Prasad et al., 2015). Small enterprises tend to be more financially fragile, smaller in resources, and more susceptible to crisis compared to their larger counterparts (Asgary et al., 2020; Bartik et al., 2020; Corey & Deitch, 2011; Eggers & Fabian, 2020; Prasad et al., 2015; Samantha, 2018; Shafi et al., 2020; Williams, S. & Schaefer, 2013). Many environmental and economic crises that occurred in the past had a severe impact on small enterprises globally. In the Deepwater Horizon crisis in 2010, at least 100,000 small businesses were adversely affected (Goldenberg, 2012). In the 2011 Thailand floods, more than 500,000 small and medium enterprises were hurt because of operations stoppage at various larger manufacturing plants. The 2014 Malaysia floods affected over 13,000 small and medium enterprises (Auzzir et al., 2018), while the 2016 tropical storm in Sri Lanka adversely affected micro, small and medium enterprises (Samantha, 2018).

In times of economic downturns, ease of access to finance dries up for small enterprises (Bougheas et al., 2006). This problem is further strengthened because small firms tend to rely more on external financing during such periods (Cowling, 1999). (OECD, 2009) states that access to start-up capital and operating funds were limited to the small enterprises during the 2008 economic downturn (Bank & Fund, 2009), where loan rejection rates were exorbitantly high, and loan repayment became difficult (Fraser, 2009). In the OECD areas, small enterprises faced a decline in their sales, combined with high payment delays and defaults,

resulting in a decline of creditworthiness and liquidity for these businesses (Potter & Thompson, 2011). According to Runyan (2006), SEs are severely impacted in crises because of their lower levels of vigilance, higher susceptibility, higher reliance on government and local agencies, and greater emotional and financial impact on the owners. This is further supported by Aminul Islam et al. (2011), who suggest that environmental changes create more uncertainty for SEs than large enterprises because SE access to market information is limited.

After the 2008 recession, small businesses required an average of six years to recover from the crisis. It should also be noted that several small enterprises, due to their small size and resource limitations, fail to reach the post-crisis period (Samantha, 2018).

### **B. Prior Research on COVID-19 crisis and small enterprises**

The COVID-19 pandemic has brought in an unparalleled impact on local and global economies and created a major health tragedy. The pandemic's unpredictable effects have slowed down economies, and many countries are expected to suffer a recession in the time to come (Global Data Analysis, 2020).

The small enterprise sector is one of the hardest-hit sectors globally because of the COVID-19 crisis. Many small enterprises entered 2020 with precarious financial resilience, which then became further vulnerable with the spread of the crisis (Dua, Mahajan, et al., 2020). According to the Federal Reserve, only 35% of small businesses entered 2020 healthy, and the less healthy ones were three times more vulnerable to close or sell during the pandemic in response to revenue losses (FRBNY, 2020).

The risk resulting from the COVID-19 crisis is greater for small enterprises because they are involved in industries that are directly affected by mandatory social distancing and operational restrictions, such as accommodation, retail, food service, child care centers, art schools, and educational services (Dua, Ellingrud, et al., 2020). The US Census Bureau found that in June 2020, two-fifths of small retail businesses experienced a decline in footfall because of lockdowns and mandatory social distancing (Dua, Mahajan, et al., 2020). A report by Facebook and Small Business Roundtable states that a third of small businesses closed their business activities during April, and more than half of the businesses either terminated or furloughed their staff by the middle of May (Sandberg, 2020). Three out of ten businesses run the risk of failure where expenditures are higher than revenues, and companies terminate employment contracts (Antonescu, 2020). In the US, the number of small enterprises affected by the coronavirus amounts up to 1.7 million (Dua, Ellingrud, et al., 2020). However, not all of them are affected proportionally. For example, 40% of SEs with less than 20 employees may close permanently, in contrast to only 5% SEs with employees ranging between 100 and 499. Additionally, minority-owned businesses are at greater risk due to the limited risk threshold. SEs involved in essential items experienced lesser financial impact than those with non-essential items, such as apparel stores (Dua, Ellingrud, et al., 2020).

The COVID-19 crisis has created a distinctive set of constraints for small enterprises. The frequently reported challenges of small enterprises precipitated by the COVID-19 crisis are reduction in customer demand (Alves et al., 2020a; Dua, Mahajan, et al., 2020; NSBA, 2020; Shafi et al., 2020), change in customer preference (Dua, Mahajan, et al., 2020), difficulties in operation due to health and safety concerns (Dua, Mahajan, et al., 2020), financial constraints (Shafi et al., 2020), reduction in sales and profit (Bouey, 2020; NSBA, 2020; Qamruzzaman, 2020; Shafi et al., 2020), liquidity crisis (Qamruzzaman, 2020), supply chain and logistics disruptions (Bouey, 2020; NSBA, 2020; Shafi et al., 2020), employee absenteeism (NSBA, 2020), inventory overflow (Qamruzzaman, 2020).

In response to the crisis, small enterprises have adopted a variety of strategies. These include temporary closure of the business (Alves et al., 2020b; Bartik et al., 2020)(Alves et al., 2020; Bartik et al., 2020); change of business line, limiting travel, remote working (Shafi et al., 2020); salary cuts (Qamruzzaman, 2020); employee termination (Bartik et al., 2020; Qamruzzaman, 2020; Shafi et al., 2020).

## **III. METHODS**

### **A. Research Context**

The first confirmed case of COVID-19 was recorded on March 8, 2020 in Bangladesh. To stop the rapid spread of the virus among the population, the Government of Bangladesh imposed a nationwide lockdown from March 26 to May 30 of 2020. With the lockdown enforcement, all non-essential business activities were restricted, barring some necessities such as pharmacies and grocery shops. The shutdown of business activities led to economic distress for the small businesses, adding to existing problems of lack of access to finance, poor market linkage, absence of skilled labor, and lack of export market (Wing, 2020). Small

enterprises were hit the hardest during the lockdown and post lockdown phase because they are dependent on short cash cycles, which were, in turn, affected by supply chain disruptions and loss of revenue. The Government of Bangladesh announced stimulus packages of 3.2 billion USD and 15 billion USD as subsidized loans for small and medium enterprises in two phases to cushion the effects of the pandemic on the SME sector.

## **B. Research Design**

Our paper follows an exploratory qualitative research approach employing multiple case study design (Eisenhardt, 1989; Eisenhardt & Graebner, 2007) to capture small enterprises' challenges and responses to the COVID-19 crisis. Qualitative research is used to specify a vast research area into a narrow one by incorporating non-numerical data. This method allows collecting in-depth data and is appropriate to study a contemporary phenomenon within its real-world context (Yin, 2017). To address the research needs of our study, we adopted a multiple case study research design because a) it allows contemporary exploration of recent events and broader exploration of the research questions (Eisenhardt & Graebner, 2007) and b) multiple case study allows to investigate various aspects of a phenomenon that may be difficult to achieve in a single case study (Cruzes et al., 2015). The selection of the cases is based on theoretical sampling with the reasoning of replication logic (Yin, 2017). We chose four small enterprises that matched the following criteria: a) being a small-sized enterprise, as defined by the Bangladeshi classification (small enterprise is limited to 25 employees); b) being in continuous operation for at least three years; c) operating in either manufacturing or service sector.

## **C. Data Collection**

We collected empirical material through semi-structured in-depth interviews. Semi-structured in-depth interviews ensure that critical issues were covered while also remaining flexible to unexpected insights (le Duc and Lindeque 2018) with no pre-set boundaries set on interview scope (F., 2005). We collected data from eleven respondents who were directly involved with business operations since they have first-hand experience of the challenges of the pandemic and subsequent responses to it. As shown in Table 1, the respondents included owners, managers, sales staff and administrative staff. We conducted the interviews in two rounds with the respondents in each of the cases. The first round was conducted in September-December 2020 and the second round in February-April 2021. The interviews ranged between 30 minutes to 2 hours depending on how the interviews progressed and were administered over Zoom to avoid in-person contact during the pandemic. Interviews were conducted in Bengali and translated in a spirit of active reflexive deliberation to minimize any impact on the reliability of the research (le Duc & Lindeque, 2018; Piekkari & Welch, 2006). We developed an interview protocol consisting of an interview guide to direct us through the discussions focusing on the following specific aspects: a) origin of the enterprise, b) challenges of running a small enterprise during a pandemic, c) strategies adopted to adapt to changing environment, d) plans for the post-pandemic period. As requested by the owners, the names of the businesses were not revealed. All the interviews were recorded with the permission of the respondents.

## **D. Data Analysis**

The qualitative data we collected from the interviews were transcribed verbatim and triangulated among respondents for validity (Ryan & Bernard, 2003). We adopted an inductive approach with the aim of building a theory through constant iteration between data collection and analysis (Eisenhardt, 1989).

First, we performed open coding through the transcribed data to generate initial codes or themes. We repeated the process until saturation was achieved where no new codes or themes emerged. Next, we conducted axial coding to refine, reduce, and generate broader categories to connect the codes that cluster together (Strauss & Corbin, 1997). We identified the challenges confronted by the small enterprises and their response actions at this stage. Third, we performed selective coding to identify the key themes. At this stage, we categorized the challenges experienced by the firms during COVID-19 into six major themes: operational, financial, supply chain and distribution, manufacturing, marketing and management; and the response actions into two strategies: short-term and long-term. Additionally, we performed a within-case analysis on individual cases separately. Later, we performed a cross-case analysis to identify the similarities and differences between the cases to achieve analytical generalization (Eisenhardt, 1989; Eisenhardt & Graebner, 2007).

*Table 1. Overview of Selected Small Enterprises and Interview Respondents*

| <i>Case</i>                | <i>I</i>                         | <i>II</i>                                   | <i>III</i>                         | <i>IV</i>                          |
|----------------------------|----------------------------------|---|------------------------------------|------------------------------------|
| <i>Main products</i>       | <i>Tours and travel packages</i> | <i>Early childhood development programs</i> | <i>Ethnic fashion and clothing</i> | <i>Home and living</i>             |
| <i>Target market</i>       | <i>Local, national</i>           | <i>Local, national, global</i>              | <i>Local, national</i>             | <i>Local, national</i>             |
| <i>Industry</i>            | <i>Service</i>                   | <i>Service</i>                              | <i>Manufacturing</i>               | <i>Manufacturing</i>               |
| <i>Number of employees</i> | <i>6</i>                         | <i>14</i>                                   | <i>20</i>                          | <i>29</i>                          |
| <i>Respondents</i>         | <i>Owner, sales staff</i>        | <i>Owner, manager, administrative staff</i> | <i>Owner, manager, sales staff</i> | <i>Owner, manager, sales staff</i> |
| <i>Total interviews</i>    | <i>3</i>                         | <i>4</i>                                    | <i>4</i>                           | <i>4</i>                           |

## 1. Case Studies

### 1.1. Case I

The enterprise is a female-owned small business operating in the service industry offering tourism and travel services to a niche target group of female travelers. Before the COVID-19 crisis hit and national and international lockdowns were enforced, the travel agency operated four to six domestic and foreign guided tours a month. In addition to the guided tours, the agency generated a steady stream of revenue from sales of air ticket and visa processing services.

According to the owner, once the lockdown was in place, she was forced to shut down all operations to comply with the government directive. As all international and domestic travel was prohibited, remote working did not serve any business value. She canceled all pre-scheduled events and paid refunds to the customers. She stated that during the entirety of the lockdown period, the agency had no revenue but incurred office rent and salary expenses. She lost out on the sales opportunities during the Eid-ul-Fitr festival season when domestic and international tours rise in volume.

To respond to the economic and financial crisis, the owner decided to restructure her agency. To that end, she terminated employees with unsatisfactory performance and hired more qualified and experienced personnel. Additionally, to save on rent, she shifted the agency to a new office space once the lockdown eased. According to the owner, since the agency is small, it did not have any customized business solution software. She plans to introduce IT-based software packages to better support her business as part of the restructuring.

In Bangladesh, domestic travel has resumed since June 2020, but non-essential international travel is still restricted. Once the national lockdown lifted, the owner started arranging domestic tour services to revive the business. In a post-lockdown pandemic era, unique adversities have surfaced. The respondents stated in the interviews that the cost of arranging domestic tours increased manifold because of health and safety-related expenses. The sizes of the guided tours must be kept minimum to adhere to social distancing guidelines, which increases the costs.

Consequently, the agency changed its existing business model from offering budget tours and shifting to focusing on luxury premium tours. The owner and the staff shared that the clients have lost interest in traveling for fear of the virus, and convincing them otherwise is the biggest challenge now. Ensuring the health and safety of employees in the office space is considered another challenge by the owner. Since the business activities resumed, the revenue stream has been very slow.

### 1.2. Case II

Our second case is a small enterprise operating in the service industry and is owned by two female entrepreneurs. This enterprise is an early childhood development (ECD) center focused on providing early

childhood development programs and counseling services for special needs children within and outside of Bangladesh. Before COVID-19 hit, the ECD center had physical and online learning activities designed for special needs children in Dhaka city and children of Bangladeshi expatriates overseas, respectively. According to the owner, the business was growing exponentially, and she had made large investments for further expansion of the center's infrastructure and learning programs. She hired additional trainers, launched new after-school learning activities, invested in properties and physical assets.

With the enforcement of the national lockdown in March 2020, the ECD center shut down all physical learning and administrative operations till the time of writing this paper. In her interview, the owner stated that she does not plan to resume physical operation till the pandemic is over as her business involves young children.

With regards to response to the crisis, the ECD center immediately shifted its learning programs online for all children during the lockdown. The manager and the educator we interviewed stated that adapting the children and their parents to a digital learning format was their biggest challenge.

Since the introduction of digital learning, the development center has expanded its reach to students outside of Dhaka city who were previously unable to avail the services. Tuition fees were reduced to attract new admissions and retain the existing ones. The business survived the cash flow shortage by falling back on the emergency fund.

As a response to the crisis, the owner has plans to introduce new learning programs and activities through digital mediums. The plans for physical expansion are suspended at the time of writing this paper.

### 1.3. Case III

Our third case is a design studio specializing in ethnic wear for women while operating in the manufacturing industry. Before the crisis of COVID-19 emerged, the enterprise made steady revenue since its inception in 2016. However, once the nationwide lockdown was announced, the studio shut down its retail outlet and work studio. Before the crisis, the business invested in a large inventory anticipating the demand surge in the upcoming April – June festival season. In Bangladesh, retail businesses generate peak revenue between April to June when the festivals of Spring, Bengali New Year, and Eid-ul-Fitr take place. The storefront closure duration coincided with this festival period and caused much of the inventory to remain unsold. According to the owner, she continued paying salaries, rent, and utility expenses from her emergency and reserve fund. As a cost-cutting effort, she forwent paying festival bonuses to the employees and negotiated a delayed payment of outlet rent with her landlord.

As a response to the crisis, the owner introduced a doorstep delivery service for the clientele. She stated that the delivery partner did not provide adequate coverage as per the needs of her business. To fix that, she encouraged her employees to step in for the doorstep delivery. To solve the problem of unsold inventory, she introduced clearance sale over their social media page to boost sales.

The outlet reopened partially with the gradual easing of lockdown in June. The opening of the outlet brought new challenges for the business. Customer footfall was minimum, and many pre-orders were canceled. Raw material sourcing issues led to the owner failing to meet customer orders. Employees were hesitant to resume work for fear of health safety.

At the time of writing, the owner is focused on achieving a minimal profit on the pre-pandemic investments. To cope with the crisis, she is focused on developing an e-commerce website for the business and increasing its social media presence.

### 1.4. Case IV

Our fourth case is a small enterprise specializing in lifestyle products that started its operations in 2015. The business is involved in designing and manufacturing home and living items. According to the owner, the business had been steadily increasing profits since its launch. At the start of the lockdown in March 2020, the owner closed off the retail outlet and the production facility. As a result of a sudden closure, respondents stated that the business missed a substantial sales opportunity during the festival period (April-June), which overlapped with the lockdown.

To sustain the business, the owner pivoted to e-commerce and social media. He introduced new products to boost sales and promoted the business on the digital medium. According to him, he received an influx of order placements online during the lockdown but failed to complete all the orders for a shortage of personnel and production facility. At the start of the lockdown, the employees left the city for fear of health safety. Other challenges arose from the third-party delivery partner's end, where many deliveries were delayed and did not reach the client on time. To solve this issue, the owner stated that he hired part-time personnel in addition to the existing employees and mobilized them for order delivery to customers. The

owner continued to pay salaries, bonuses, rent, and utilities during the lockdown period. According to the owner, the biggest challenge was the shortage of cash flow during the crisis. He managed the cash shortage through his emergency/contingency fund.

Once the lockdown eased, the outlet opened partially, and minimal production started. Customer footfall was low, but online sales were encouraged by introducing new products and reducing the price of older ones. However, new problems in production emerged as raw materials became costlier and difficult to source. As a response, the owner is focused on maintaining minimal profits to sustain the business.

Table 2. Analytical Table for Case I, II, III and IV

| Dimensions       | Main Findings                                       | Illustrative Quotes Example  |
|------------------|---|--|
| Operational      | Lockdowns forced SEs to shut down business activity | "Business was closed from March-July" (Case I, Owner)<br>"Outlet and design studio both were closed" (Case III, Manager)   |
|                  | Cancelled pre-scheduled events/orders               | "Canceled three domestic, two international tours" (Case I, Owner)<br>"Customers placed orders..then canceled" (Case III, Manager)                                 |
|                  | Loss of revenue and missed sales opportunities      | "Business was closed...had no income" (Case I, Owner)<br>"Revenue was lowest" (Case II, Owner)<br>"I saw a 70% drop in sales because of COVID-19" (Case IV, Owner) |
|                  | Rent and utilities                                  | "Paid all bills rents in full" (Case I, Owner)<br>"Forced to pay outlet, studio rents, utility bills in full...no exception." (Case II, Owner)                     |
| Challenges (RQ1) | Salaries  | "Paid salaries to all staff" (Case I, Owner)   |
| Financial        |   | "No cash.....suffered huge money problems." (Case I, Owner)  |
|                  | Liquidity crisis                                    | "Discount campaigns minimized cashflow" (Case II, Manager)<br>"Didn't have much sales...had little money" (Case III, Owner)  |
|                  |   | "Made big investments before COVID" (Case II, Owner)   |
|                  | Failed to recoup tied up investments                | "All products we made investments for sat on shelf" (Case III, Manager)<br>"I invested in a new collection targeting Eid...could not sell" (Case IV, Owner)        |

|                          |                               |   |  |
|--------------------------|-------------------------------|---|--|
| Survival Responses (RQ2) | Management                    | Unsold products   | "Products remained on shelf." (Case III, Owner)  |
|                          |                               |   | "Employees are scared" (Case I, Owner)   |
|                          |                               | Employee hesitancy  | "Employees don't want to come back to work" (Case III, Manager)  |
|                          |                               | Health and safety at workplace  | "Health safety of employees and customers is primary concern" (Case IV, Owner)   |
|                          | Marketing                     | Few personnel to support business activities  | "Employees left for villages.... not enough personnel to do work" (Case IV, Owner)   |
|                          |                               | Low customer traffic  | "Very few customers visit in person" (Case I, Sales Staff)<br>"Customer footfall is very low" (Case III, Sales staff)  |
|                          |                               |   |  |
|                          | Supply Chain and Distribution | Poor service from logistics partners  | "Delivery partner was inefficient...customers were complaining" (Case III, Manager)<br>"Delivery partner caused delays" (Case IV, Owner)   |
|                          |                               |   |  |
|                          | Manufacturing                 | Difficulty in raw material procurement  | "Sourcing materials from abroad is taking long time" (Case III, Manager)   |
|                          |                               | High cost of production   | "Raw materials are costly... cost of production is high." (Case IV, Owner)   |
|                          | Restructuring                 | Restructuring business activities   | "I am reorganizing my business from top to bottom....hiring highly qualified employees, business solution software, skill training, new office space, redesigning organization structure." (Case I, Owner) |
|                          | Segmentation                  | New customer segmentation   | "Scrapped foreign and budget tours.... offering domestic luxury tours now." (Case I, Owner)  |
|                          | Management                    | Adopting health and social distancing guidelines  | "Sanitizers...masks are mandatory at the office" (Case I, Sales staff)   |
|                          |                               | "Developing cartoons, storybooks....after school learning activities" (Case II, Administrative staff)                 |  |
| Marketing                | New product development       | "Launched three new product lines...face masks, wall decorations for Zoom background, plant stands." (Case IV, Owner) |  |
|                          | Geographic expansion          | "Enrolling children from remote parts....focusing on international reach" (Case II, Owner)                            |  |



|                               |  |   |
|-------------------------------|--|---|
|                               |  | <i>"Business wouldn't have survived without my emergency fund" (Case II, Owner)</i>   |
|                               | Contingency funds                          | <i>"Business is still running because had contingency fund for difficult times...paid for salaries, rent, utility...all other expenses with it" (Case III, Owner)</i> |
| Financial                     |  | <i>"I am satisfied even if I get a little return." (Case III, Owner)</i>  |
|                               | Minimal profit margin                      | <i>"Focusing on minimal profit to ensure the survival " (Case IV, Owner)</i>  |
|                               | Minimize personnel-related costs           | <i>"Did not pay festival bonus...increment to employees" (Case IV, Owner)</i>   |
|                               |  | <i>"Prioritized online presence.....sold collection on Facebook." (Case I, Owner)</i>   |
| Operational                   | Shift to digital storefronts               | <i>"Moved some of our learning programs to students over Zoom" (Case II, Manager)</i>   |
|                               |  | <i>"Ran business through website and Zoom" (Case III, Owner)</i>  |
|                               | Promotional campaigns on social media      | <i>"Multiple Facebook page boosting....promotional campaigns to reach customers" (Case III, Manager)</i>  |
| Promotional                   |  |   |
|                               | Clearance sale to offload unsold inventory | <i>"Clearance sale over Facebook page, outlet after partial reopening" (Case III, Owner)</i>  |
|                               |  | <i>"Convinced employees to step in for doorstep delivery" (Case III, Manager)</i>   |
| Supply Chain and Distribution | In-house delivery                          | <i>"Hired part-time workers to make doorstep customer deliveries" (Case IV, Owner)</i>  |

## IV. FINDINGS AND DISCUSSION

This section presents the primary findings of our study and the proposed framework for crisis survival. The findings are divided in two sub-sections: COVID-19 related challenges and the short- and long-term response measures to mitigate the challenges.

### A. COVID-19 Related Challenges for Small Enterprises

The case studies presented in this paper suggest that operational challenges such as the closure of brick and mortar storefronts created a series of adversities for small enterprises during the COVID-19 pandemic. Business shutdown led to other operational challenges such as order cancellations and difficulty in adopting digitalization. For example, one respondent mentioned, "We experienced order cancellations in bulk numbers during the lockdown period." Another respondent said, "Immediate shift to online platforms was not easy from an operational point." The second set of challenges that emerged from our discussions with the

respondents is the financial challenges of small enterprises. These challenges include liquidity crisis, revenue loss, rent and utility payments, salary and wage payments, tied-up investments. We also found that these challenges triggered other challenges. For example, as one respondent put it, “we lost so much sales because of the shutdown that we suffered from a huge crisis of cashflow afterward.” Loss of sales and failure to recoup investments led to a cash flow shortage, which triggered struggles such as paying wages and salaries to employees, covering rent and utility bills. The third set of challenges that emerged from our discussions with respondents and subsequent thematic analysis of the cases is supply chain and distribution related issues. One such challenge was the difficulty in procuring raw materials because procuring raw materials from foreign countries became expensive and time-consuming due to mobility restrictions. In the words of one respondent, “Raw materials coming from India cost more than before and took more time. Thus, manufacturing prices went up.” In addition to these challenges, our interviews and case analysis brought to light specific challenges that are manufacturing, marketing, and management related. For manufacturing, production costs shot up as a result of raw material procurement difficulties. On the other hand, business shutdown caused inventory to remain unsold, creating another manufacturing challenge. Given that people were hesitant to come out of home even after the lockdown lifted, our discussions revealed that customer visits to the retail stores were minimum after reopening. A respondent remarked, “Customers are not comfortable coming to small spaces such as a retail shop where maintaining social distancing is a challenge in itself.” Ensuring social distancing and hygiene protocols for employees, workers, and customers was a major management challenge for small enterprises. It was evident that none of the challenges identified in our research occurred in isolation. Rather, one challenge contributed to several other sets of challenges. For example, adversities such as cancellation of orders, loss of revenue, missed sales opportunities, liquidity shortage, and failure to recoup investments – all originated from the sudden shutdown. These challenges are consistent for manufacturing and service-based small enterprises regardless of business focus.

When compared with literature, we found that other researches have reported similar problems in the COVID -19 and SME context, such as supply chain and distribution disruptions (Bartik et al., 2020; Dai et al., 2020; Irawan, 2020; Juergensen et al., 2020; Lu et al., 2020), liquidity shortage (Bartik et al., 2020; Juergensen et al., 2020; Lu et al., 2020), decreased sales (Aderemi et al., 2020; Aftab et al., 2021; Cadby, 2020; Dai et al., 2020; Dayour et al., 2020; Gheorghiu, 2020; Lu et al., 2020; Lutfi et al., 2020), employee health and safety concerns (Bartik et al., 2020; Lu et al., 2020), low customer traffic (Lu et al., 2020), cancellation of orders (Aderemi et al., 2020; Dayour et al., 2020; Juergensen et al., 2020), shutdown of operations (Bartik et al., 2020; Dayour et al., 2020; Nyanga & Zirima, 2020), adoption of digitalization (Irawan, 2020), increased production cost (Lutfi et al., 2020), labor shortage (Dai et al., 2020; Gheorghiu, 2020). Although a number of studies conducted in the context of COVID-19 and SME reported job termination (Bartik et al., 2020; Dayour et al., 2020; Thorgren & Williams, 2020), contract breach (Dai et al., 2020) as threats faced by SMEs in light of the COVID-19 crisis, we did not find any evidence of such for small enterprises in our study.

### **B. Short-term and Long-term Responses to the COVID-19 Challenges**

(Martinelli et al., 2018) state that normal production and operation activities become temporarily hampered in times of a crisis; thus, firms need to make emergency responses to mitigate the negative effects (Müller, 1985). Our findings suggest that small enterprises quickly transitioned their business activities to digital platforms, i.e., websites and social media, in response to these challenges. Respondents shared that e-commerce and online marketplaces offered them the most promising alternative for survival during the crisis. One respondent mentioned, “E-commerce platforms and social media sites helped me shift my business online and reach a wider audience immediately.” The importance of digitalization for business survival and growth is now recognized widely in the context of the COVID-19 outbreak (Guo et al., 2020). This is similar to the findings of Irawan (2020), Guo et al. (2020). In addition to digitalization, we found that SEs were focused on turning threats into opportunities through strategic responses such as restructuring and reconfiguring resources, i.e., changes in existing customer segmentation, geographic expansion, and new product development. Our findings showed that small enterprises utilized the full potential of their dynamic capabilities. Dynamic capabilities are termed as capacities to build, integrate, and reconfigure external and internal resources when coping with a rapidly changing environment (Teece, 2012). Businesses with dynamic capabilities are quick to address potential prospects and react accordingly (Ballesteros et al., 2017). Findings showed that the small enterprises under the study identified and captured new opportunities to ensure business sustainability. For example, respondents shared the view that introducing an “in-house” delivery service by integrating the distribution allowed SEs to shorten the delivery delays and become independent of

third-party service providers. Other instances are expanding into new geographic markets and new business areas.

Based on our interviews with the respondents and analysis of the cases, we classified the responses adopted by small enterprises to combat COVID-19 challenges into short-term emergency strategies and long-term strategic ones (See Figure 1). While short-term responses targeted adjusting to the unstable crisis environment, long-term responses aimed at identifying new business opportunities for future growth. In short-term responses, SEs adopted strategies of 1) cost minimization, 2) employee protection, 3) social media promotional campaigns, 4) changes in customer segmentation, 5) minimal profit margin, 6) local sourcing of raw material, 7) contingency funds, and 8) integrating distribution. Cost minimization was reflected through a) forgoing employee bonuses/incentives and b) negotiating with business associates (landlords) to defer payment. Employee protection was reflected by ensuring mask-wearing and social distancing guidelines. Changes in customer segmentation involved restructuring existing segmentation into new ones to adapt to the changing purchasing power and preference of customers. Social media promotional campaign was reflected through a) clearance sale and b) Facebook page boosting.

Long-term responses, irrespective of manufacturing or service focus, were as follows: 1) digitalization, 2) business restructuring, and 3) geographic expansion. Findings revealed that digitalization was reflected through a) adoption of digital platforms (i.e., website, e-commerce, and f-commerce) and b) digital technology software. Business restructuring was reflected through a) skill improvement and b) organization restructuring. Geographic expansion focused on a) changing regional market coverage and b) expanding market coverage internationally.

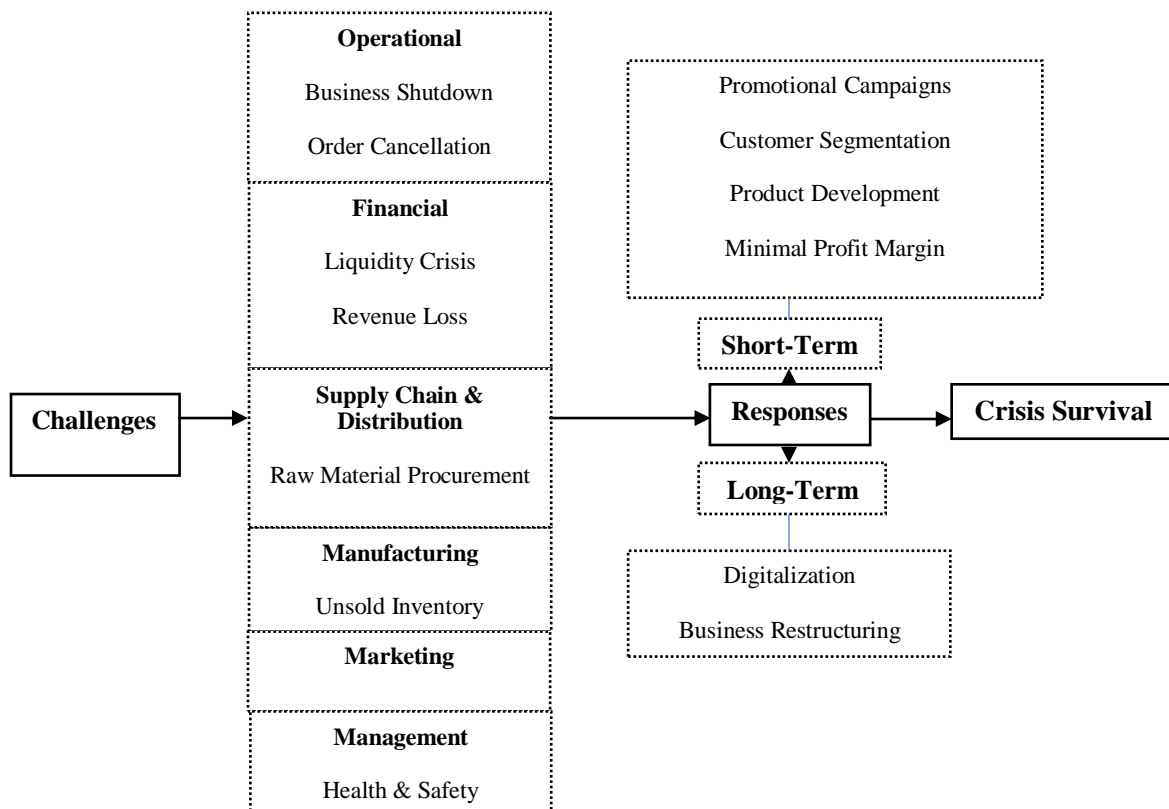


Figure 1. A Model of Small Enterprise Challenge and Crisis Response

Source: Authors' own

Several short and long term strategies that emerged in our findings have similarities with earlier researches on SMEs and COVID-19, such as reduced remuneration (Thorgren & Williams, 2020), expense reduction (Thorgren & Williams, 2020), hygiene and safety adherence (Irawan, 2020), new product development (Irawan, 2020; Thorgren & Williams, 2020), digitalization (Guo et al., 2020), business

restructuring (Irawan, 2020) and new customer segmentation (Thorgren & Williams, 2020). However, we did not find any instance of strategies such as new recruitment freeze or business/bank loan from our case studies as found by (Thorgren & Williams, 2020). Additionally, with respect to the SME incentive measures announced by the Government of Bangladesh, extrapolated findings show that the incentives failed to generate desired interest among the target group. The respondents were not optimistic about getting the opportunity to avail such an incentive. Additionally, small enterprise owners do not share interest in institutional borrowing to solve liquidity crisis. As one respondent put it, "Getting a bank loan is too complicated and time-consuming. I'd much rather borrow from my family than bear the hassle of bank loan."

### **C. Proposed Framework for Small Enterprise Crisis Survival**

The four case studies described in this research shed light on the aspects that create resilience for small enterprises. Derived from our findings, we propose a conceptual framework suggesting responses for crisis survival for small enterprises (See Figure 2).

**Product and service Innovation** – As illustrated in the cases, product and service innovation can build resilience for businesses to overcome the crisis shock of a pandemic. Companies that can continuously develop new products and services to meet the changing customer needs and preferences will remain relevant in a changing pandemic environment.

**Digital Transformation** – Small enterprises need to build and increase online presence via direct websites and social media to reach customers who prefer shopping online or staying home. Additionally, SEs should focus on using multiple communication channels such as email, social media, etc., for improving customer engagement. They can achieve digital transformation by upgrading digital capabilities, adopting secure cloud platforms, software services, automating repetitive tasks, and creating a digital workplace.

**Alternate Supply and Logistics Chain** – Small businesses need to evaluate supply and logistics bases and third-party risks. Strategic evaluation of supplier relationships, performance, and contract terms are necessary to provide insight into which supply and logistics partners are nimble and not. Building collaboration with a greater supplier community will help tremendously to manage the supply and logistics disruption during a pandemic successfully.

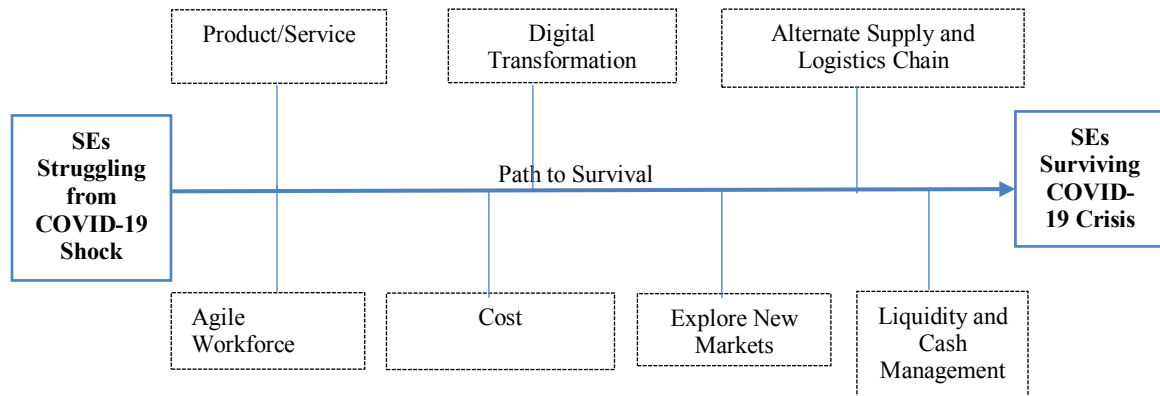
**Explore New Markets** – As illustrated in the cases, exploring new markets and opportunities and evaluating the potential to shift to alternate markets is critical to surviving a crisis scenario. To build resilience to crisis, small businesses must target new customers, develop/enter new markets, and expand their geographic reach to meet changing market demands.

**Agile Workforce** – To pivot to adjusting to a new normal, small businesses need to evaluate the state of their workforce to create agility – ways to optimize productivity, required new skills and qualifications, retraining needs, and optimum mix of office vs work from home workforce.

**Cost Optimization** – As seen in the cases, successful cost optimization strategies can ensure business survival during a challenging period. Small enterprises can achieve cost optimization by identifying non-essential expenses, reducing expenses related to non-strategic and underperforming activities and inefficiencies, adopting automation, introducing cost saving programs, and reallocating budgets.

**Liquidity and Cash Management** – The cases in this study illustrated that cash flow was one of the primary challenges for small enterprises during the COVID-19 crisis. To avoid liquidity shortage, businesses need to regularly update cash flow forecasts, address future deficiencies, devise ways to increase cash inflow, negotiate deferring payments and fasten collections.

Figure 2. Conceptual Framework for Crisis Survival



Source: Authors' own

## V. MANAGERIAL AND POLICY IMPLICATIONS

Our findings respond to the need to understand the challenges posed by the COVID-19 crisis to the small enterprises and the response strategies adopted by these enterprises to ensure survival through the crisis. These findings reveal that the outbreak of COVID-19 and resulting lockdowns created a heavy impact on small enterprises. However, it is also evident from our findings that the small enterprises were quick enough to turn the threats of the crisis into opportunities by adopting responses that allowed business sustainability in an uncertain crisis environment. Although we are still in the midst of the crisis and its full impact on small enterprises is yet to be seen, our study offers potential crisis responses that small enterprises and policymakers can adopt to respond to the emerging threats posed by COVID-19.

Our study outlines two key suggestions for small enterprises that might help these businesses address the challenges when a crisis is unfolding. First, SEs that want to avoid becoming paralyzed when exposed to an exogenous shock might get some insight from how the SEs in our study responded through the following actions: promoting sales campaign on social media to clear out unsold items, targeting minimal profit margins, deferring payments to business associates through negotiation, integrating distribution channels and acquiring alternate sources of raw materials. Second, we suggest that SEs focus on innovation and digitalization in times of crisis. SEs can boost sales and sustainability through innovative means such as creating new customer segmentation, developing new products and services that satisfy changing customer needs, and developing online infrastructure to diversify sales channels.

We suggest two recommendations for policymakers responsible for developing measures to assist small enterprises during a crisis period. First, policymakers must make the loan approval process easy for small enterprises. Our data showed that SE owners negatively perceive acquiring any type of institutional loan or stimulus packages. To that end, policymakers need to ease the documentation and paperwork associated with getting loans and stimulus packages and fasten the approval process. Second, policymakers could develop a government supported "consultancy assistance" initiative that helps small enterprises with managerial, market development, and investment related advice during exogenous shocks.

## VI. CONCLUSION AND FUTURE DIRECTION

The COVID-19 outbreak has presented great challenges for the survival and growth of small enterprises worldwide. This study aims to understand the state of small enterprises in Bangladesh in the context of the COVID-19 crisis. We explored the adversities experienced by the small enterprises and the response strategies adopted by these firms to mitigate the adversities of the crisis. Our findings showed that the challenges for small enterprises are similar regardless of manufacturing or service-based business and are parallel to the challenges of small and medium enterprises worldwide. Enterprises are facing a variety of challenges such as operational, financial, supply chain and distribution disruption, manufacturing, marketing, and management.

Importantly, our findings imply that small enterprises were quick to search for response strategies to tackle the crisis, and such responses have aided them with business sustainability in a pandemic environment. These strategies include promotional campaigns, product innovation, new customer segmentation, minimal profits, cost reduction, contingency funds, in-house delivery, local sourcing of raw materials, digitalization, business restructuring and geographic expansion of business. The findings suggest that small enterprises had the dynamic capability to immediately pivot to digital platforms to run their business and adopted several short-term and long-term response strategies to mitigate the ongoing crisis. Additionally, we propose a conceptual framework for crisis response for small enterprises in a pandemic.

The significance of this study is highly remarkable because this is the first study to explore the challenges posed by COVID-19 on small enterprises and suggest potential strategies to subvert those challenges. The findings emerging from our study are pertinent to policymakers who wish to assist small enterprises and small enterprise owners who seek guidance to manage their business during a crisis. We contribute to the existing literature on small and medium enterprises in emerging economies by making Bangladesh the background of our study. Although our research provides theoretical and practical implications for small enterprises during a crisis, some limitations remain. One of the limitations is that the study is based on a case study methodology and collects data from interviews. Although we adopted the necessary means to ensure the research design permits the reliability and validity of the findings, the research methodology and the small number of interviewees for each enterprise limit the theoretical generalization. Future research can consider conducting a comprehensive survey to verify the strategies and improve generalization. Second, some of the challenges identified in the study are interrelated and have causal relationships. For example, a decrease in revenue can definitely reduce liquidity. However, we have not addressed the correlation and causality among the challenges as these were beyond the scope of our study. Future research can concentrate on these correlations and causalities and provide direction for policymaking. Third, future research can be undertaken on post-crisis small enterprises, focusing on the characteristics of the small enterprises that survived the COVID-19 crisis.

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